

107TH CONGRESS  
1ST SESSION

# H. R. 1398

To amend the Internal Revenue Code of 1986 to provide individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 4, 2001

Mr. RANGEL (for himself, Mr. BONIOR, Mrs. MINK of Hawaii, Mr. PASTOR, Mr. SAWYER, Mr. McNULTY, Mr. PASCRELL, Mr. MATSUI, Mr. BARRETT, and Mr. LEVIN) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide individual income tax rate reductions, tax relief to families with children, marriage penalty relief, and to immediately eliminate the estate tax for two-thirds of all decedents currently subject to the estate tax.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       (a) SHORT TITLE.—This Act may be cited as the  
5       “Tax Reduction Act of 2001”.

1 (b) AMENDMENT OF 1986 CODE.—Except as other-  
 2 wise expressly provided, whenever in this Act an amend-  
 3 ment or repeal is expressed in terms of an amendment  
 4 to, or repeal of, a section or other provision, the reference  
 5 shall be considered to be made to a section or other provi-  
 6 sion of the Internal Revenue Code of 1986.

7 (c) SECTION 15 NOT TO APPLY.—No amendment  
 8 made by this Act shall be treated as a change in a rate  
 9 of tax for purposes of section 15 of the Internal Revenue  
 10 Code of 1986.

11 **TITLE I—INDIVIDUAL INCOME**  
 12 **TAX RATE REDUCTIONS; EX-**  
 13 **PANSION OF EARNED INCOME**  
 14 **CREDIT ASSISTANCE**

15 **SEC. 101. INDIVIDUAL INCOME TAX RATE REDUCTIONS.**

16 (a) IN GENERAL.—Section 1 is amended by adding  
 17 at the end the following new subsection:

18 “(i) 12 PERCENT RATE BRACKET.—

19 “(1) IN GENERAL.—In the case of taxable years  
 20 beginning after December 31, 2000—

21 “(A) the rate of tax under subsections (a),  
 22 (b), (c), and (d) on taxable income not over the  
 23 initial bracket amount shall be 12 percent, and

1 “(B) the 15 percent rate of tax shall apply  
2 only to taxable income over the initial bracket  
3 amount.

4 “(2) INITIAL BRACKET AMOUNT.—For purposes  
5 of this subsection—

6 “(A) IN GENERAL.—Except as provided in  
7 subparagraph (B), the initial bracket amount  
8 is—

9 “(i) \$20,000 in the case of subsection  
10 (a),

11 “(ii) 80 percent of the dollar amount  
12 in clause (i) in the case of subsection (b),  
13 and

14 “(iii) 50 percent of the dollar amount  
15 in clause (i) in the case of subsections (c)  
16 and (d).

17 “(B) PHASEIN.—The initial bracket  
18 amount is—

19 “(i)  $\frac{1}{4}$  the amount otherwise applica-  
20 ble under subparagraph (A) in the case of  
21 taxable years beginning during 2001, and

22 “(ii)  $\frac{1}{2}$  such amount otherwise appli-  
23 cable under subparagraph (A) in the case  
24 of taxable years beginning during 2002.

25 “(3) INFLATION ADJUSTMENT.—

1           “(A) IN GENERAL.—In the case of any  
 2           taxable year beginning in a calendar year after  
 3           2003, the \$20,000 amount under paragraph  
 4           (2)(A)(i) shall be increased by an amount equal  
 5           to—

6                     “(i) such dollar amount, multiplied by

7                     “(ii) the cost-of-living adjustment de-  
 8                     termined under subsection (f)(3) for the  
 9                     calendar year in which the taxable year be-  
 10                    gins, determined by substituting ‘calendar  
 11                    year 2002’ for ‘calendar year 1992’ in sub-  
 12                    paragraph (B) thereof.

13           “(B) ROUNDING RULES.—If any amount  
 14           after adjustment under subparagraph (A) is not  
 15           a multiple of \$50, such amount shall be round-  
 16           ed to the next lowest multiple of \$50.

17           “(4) ADJUSTMENT OF TABLES.—The Secretary  
 18           shall adjust the tables prescribed under subsection  
 19           (f) to carry out this subsection.”

20           (b) ADJUSTMENT IN COMPUTATION OF ALTER-  
 21           NATIVE MINIMUM TAX.—Paragraph (2) of section 55(a)  
 22           is amended to read as follows:

23                     “(2) the sum of—

24                     “(A) the regular tax for the taxable year,  
 25                     plus

1 “(B) in the case of an individual, 3 percent  
2 of so much of the individual’s taxable income  
3 for the taxable year as is taxed at 12 percent.”

4 (c) REPEAL OF REDUCTION OF REFUNDABLE TAX  
5 CREDITS.—

6 (1) Subsection (d) of section 24 is amended by  
7 striking paragraph (2) and redesignating paragraph  
8 (3) as paragraph (2).

9 (2) Section 32 is amended by striking sub-  
10 section (h).

11 (d) CONFORMING AMENDMENT.—Subclause (II) of  
12 section 1(g)(7)(B)(ii) is amended by striking “15 percent”  
13 and inserting “12 percent”.

14 (e) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 2000.

17 (f) PROTECTION OF SOCIAL SECURITY AND MEDI-  
18 CARE.—The amounts transferred to any trust fund under  
19 the Social Security Act shall be determined as if this Act  
20 had not been enacted.

21 **SEC. 102. MODIFICATIONS TO EARNED INCOME TAX CRED-**  
22 **IT.**

23 (a) INCREASES IN PERCENTAGES AND AMOUNTS  
24 USED TO DETERMINE CREDIT; MARRIAGE PENALTY RE-  
25 LIEF.—

1           (1) IN GENERAL.—Subsection (b) of section 32  
2           is amended to read as follows:

3           “(b) PERCENTAGES AND AMOUNTS.—

4           “(1) PERCENTAGES.—The credit percentage,  
5           the initial phaseout percentage, and the final phase-  
6           out percentage shall be determined as follows:

“In the case of an eligible indi- vidual with:	The credit per- centage is:	The initial phaseout per- centage is:	The final phaseout per- centage is:
1 qualifying child .....	34	15.98	18.98
2 or more qualifying children .....	40	21.06	24.06
No qualifying children .....	7.65	7.65	7.65

7           “(2) AMOUNTS.—

8           “(A) IN GENERAL.—The earned income  
9           amount and the initial phaseout amount shall  
10          be determined as follows:

“In the case of an eligible individual with:	The earned in- come amount is:	The initial phaseout amount is:
1 qualifying child .....	\$8,140	\$13,470
2 or more qualifying children .....	\$11,120	\$13,470
No qualifying children .....	\$4,900	\$6,130.

11          In the case of a joint return where there is at  
12          least 1 qualifying child, the initial phaseout  
13          amount shall be \$2,500 greater than the  
14          amount otherwise applicable under the pre-  
15          ceding sentence.

1                   “(B) FINAL PHASEOUT AMOUNT.—The  
 2                   final phaseout amount is \$26,000 (\$28,500 in  
 3                   the case of a joint return).”

4                   (2) MODIFICATION OF COMPUTATION OF  
 5                   PHASEOUT.—Paragraph (2) of section 32(a) is  
 6                   amended to read as follows:

7                   “(2) PHASEOUT OF CREDIT.—The amount of  
 8                   the credit allowable to a taxpayer under paragraph  
 9                   (1) for any taxable year shall be reduced (but not  
 10                  below zero) by the sum of—

11                  “(A) the initial phaseout percentage of so  
 12                  much of the total income (or, if greater, the  
 13                  earned income) of the taxpayer for the taxable  
 14                  year as exceeds the initial phaseout amount but  
 15                  does not exceed the final phaseout amount, plus

16                  “(B) the final phaseout percentage of so  
 17                  much of the total income (or, if greater, the  
 18                  earned income) of the taxpayer for the taxable  
 19                  year as exceeds the final phaseout amount.”

20                  (3) TOTAL INCOME.—Paragraph (5) of section  
 21                  32(c) is amended to read as follows:

22                  “(5) TOTAL INCOME.—The term ‘total income’  
 23                  means adjusted gross income determined without re-  
 24                  gard to—

1 “(A) the deductions referred to in para-  
2 graphs (6), (7), (9), (10), (15), (16), and (17)  
3 of section 62(a),

4 “(B) the deduction allowed by section  
5 162(l), and

6 “(C) the deduction allowed by section  
7 164(f).”

8 (4) CONFORMING AMENDMENTS.—

9 (A) Subsection (j) of section 32 is amend-  
10 ed to read as follows:

11 “(j) INFLATION ADJUSTMENT.—

12 “(1) IN GENERAL.—In the case of any taxable  
13 year beginning after 2002, each of the dollar  
14 amounts in subsection (b)(2) shall be increased by  
15 an amount equal to—

16 “(A) such dollar amount, multiplied by

17 “(B) the cost-of-living adjustment deter-  
18 mined under section 1(f)(3), for the calendar  
19 year in which the taxable year begins, deter-  
20 mined by substituting ‘calendar year 2001’ for  
21 ‘calendar year 1992’ in subparagraph (B)  
22 thereof.

23 “(2) ROUNDING.—If any dollar amount, after  
24 being increased under paragraph (1), is not a mul-



1        tiple of \$10, such dollar amount shall be rounded to  
2        the nearest multiple of \$10.”

3                (B) Subparagraph (C) of section 32(c)(1)  
4        is amended by striking “modified adjusted  
5        gross income” and inserting “total income”.

6                (C) Paragraph (2) of section 32(f) is  
7        amended to read as follows:

8        “(2) REQUIREMENTS FOR TABLES.—

9                “(A) IN GENERAL.—The provisions of sub-  
10       section (a)(1) and the provisions of subsection  
11       (a)(2) shall be reflected in separate tables pre-  
12       scribed under paragraph (1).

13               “(B) SUBSECTION (a)(1) TABLE.—The ta-  
14       bles prescribed under paragraph (1) to reflect  
15       the provisions of subsection (a)(1) shall have in-  
16       come brackets of not greater than \$50 each for  
17       earned income between \$0 and the earned in-  
18       come amount.

19               “(C) SUBSECTION (a)(2) TABLE.—The ta-  
20       bles prescribed under paragraph (1) to reflect  
21       the provisions of subsection (a)(2) shall have in-  
22       come brackets of not greater than \$50 each for  
23       total income (or, if greater, the earned income)  
24       above the initial phaseout threshold.”

1       (b) REPEAL OF DENIAL OF CREDIT WHERE INVEST-  
 2       MENT INCOME.—Section 32 is amended by striking sub-  
 3       section (i).

4       (c) EARNED INCOME TO INCLUDE ONLY AMOUNTS  
 5       INCLUDIBLE IN GROSS INCOME.—

6           (1) IN GENERAL.—Section 32(c)(2)(A)(i) (de-  
 7       fining earned income) is amended by inserting “, but  
 8       only if such amounts are includible in gross income  
 9       for the taxable year” after “other employee com-  
 10      pensation”.

11          (2) CONFORMING AMENDMENT.—Section  
 12      32(c)(2)(B) is amended by striking “and” at the end  
 13      of clause (iv), by striking the period at the end of  
 14      clause (v) and inserting “, and”, and by adding at  
 15      the end the following new clause:

16           “(vi) the requirement under subparagraph  
 17      (A)(i) that an amount be includible in  
 18      gross income shall not apply if such  
 19      amount is exempt from tax under section  
 20      7873 or is derived directly from restricted  
 21      and allotted land under the Act of Feb-  
 22      ruary 8, 1887 (commonly known as the In-  
 23      dian General Allotment Act) (25 U.S.C.  
 24      331 et seq.) or from land held under Acts  
 25      or treaties containing an exception provi-

1                   sion similar to the Indian General Allot-  
2                   ment Act.”

3           (d) MODIFICATION OF JOINT RETURN REQUIRE-  
4   MENT.—Subsection (d) of section 32 is amended to read  
5   as follows:

6           “(d) MARRIED INDIVIDUALS.—

7                   “(1) IN GENERAL.—If the taxpayer is married  
8           at the close of the taxable year, the credit shall be  
9           allowed under subsection (a) only if the taxpayer  
10          and his spouse file a joint return for the taxable  
11          year.

12                   “(2) MARITAL STATUS.—For purposes of para-  
13          graph (1), an individual legally separated from his  
14          spouse under a decree of divorce or of separate  
15          maintenance shall not be considered as married.

16                   “(3) CERTAIN MARRIED INDIVIDUALS LIVING  
17          APART.—For purposes of paragraph (1), if—

18                           “(A) an individual —

19                                   “(i) is married and files a separate re-  
20                                  turn, and

21                                   “(ii) has a qualifying child who is a  
22                                  son, daughter, stepson, or stepdaughter of  
23                                  such individual, and

24                           “(B) during the last 6 months of such tax-  
25                          able year, such individual and such individual’s

1 spouse do not have the same principal place of  
2 abode,

3 such individual shall not be considered as married.”

4 (e) EXPANSION OF MATHEMATICAL ERROR AUTHOR-  
5 ITY.—Paragraph (2) of section 6213(g) is amended by  
6 striking “and” at the end of subparagraph (K), by striking  
7 the period at the end of subparagraph (L) and inserting  
8 “, and”, and by inserting after subparagraph (L) the fol-  
9 lowing new subparagraph:

10 “(M) the entry on the return claiming the  
11 credit under section 32 with respect to a child  
12 if, according to the Federal Case Registry of  
13 Child Support Orders established under section  
14 453(h) of the Social Security Act, the taxpayer  
15 is a noncustodial parent of such child.”

16 (f) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 2001.

## 19 **TITLE II—MARRIAGE PENALTY** 20 **RELIEF**

### 21 **SEC. 201. MARRIAGE PENALTY RELIEF.**

22 (a) STANDARD DEDUCTION.—

23 (1) IN GENERAL.—Paragraph (2) of section  
24 63(c) (relating to standard deduction) is amended—

1 (A) by striking “\$5,000” in subparagraph  
 2 (A) and inserting “twice the dollar amount in  
 3 effect under subparagraph (C) for the taxable  
 4 year”,

5 (B) by adding “or” at the end of subpara-  
 6 graph (B),

7 (C) by striking “in the case of” and all  
 8 that follows in subparagraph (C) and inserting  
 9 “in any other case.”, and

10 (D) by striking subparagraph (D).

11 (2) INCREASE ALLOWED AS DEDUCTION IN DE-  
 12 TERMINING MINIMUM TAX.—Subparagraph (E) of  
 13 section 56(b)(1) is amended by adding at the end  
 14 the following new sentence: “The preceding sentence  
 15 shall not apply to so much of the standard deduction  
 16 under subparagraph (A) of section 63(c)(2) as ex-  
 17 ceeds the amount which would be such deduction but  
 18 for the amendment made by section 201(a)(1) of the  
 19 Tax Reduction Act of 2001.

20 (3) TECHNICAL AMENDMENTS.—

21 (A) Subparagraph (B) of section 1(f)(6) is  
 22 amended by striking “(other than with” and all  
 23 that follows through “shall be applied” and in-  
 24 serting “(other than with respect to sections  
 25 63(c)(4) and 151(d)(4)(A)) shall be applied”.

1 (B) Paragraph (4) of section 63(c) is  
 2 amended by adding at the end the following  
 3 flush sentence:

4 “The preceding sentence shall not apply to the  
 5 amount referred to in paragraph (2)(A).”.

6 (b) EFFECTIVE DATE.—The amendments made by  
 7 this section shall apply to taxable years beginning after  
 8 December 31, 2000.

## 9 **TITLE III—ESTATE TAX RELIEF**

### 10 **SEC. 301. INCREASE IN EXEMPTION EQUIVALENT OF UNI-** 11 **FIED CREDIT.**

12 (a) IN GENERAL.—Subsection (c) of section 2010  
 13 (relating to applicable credit amount) is amended by strik-  
 14 ing the table and inserting the following new table:

<b>“In the case of estates of decedents dying, and gifts made, during:</b>	<b>The applicable exclusion amount is:</b>
2002 .....	\$2,000,000
2003 and 2004 .....	\$2,100,000
2005 and 2006 .....	\$2,200,000
2007 and 2008 .....	\$2,300,000
2009 .....	\$2,400,000
2010 or thereafter .....	\$2,500,000.”

15 (b) REPEAL OF SPECIAL BENEFIT FOR FAMILY-  
 16 OWNED BUSINESS INTERESTS.—

17 (1) Section 2057 is hereby repealed.

18 (2) Paragraph (10) of section 2031(c) is  
 19 amended by inserting “(as in effect on the day be-  
 20 fore the date of the enactment of this parenthet-  
 21 ical)” before the period.

1           (3) The table of sections for part IV of sub-  
 2           chapter A of chapter 11 is amended by striking the  
 3           item relating to section 2057.

4           (c) CORRECTION OF TECHNICAL ERROR AFFECTING  
 5           LARGEST ESTATES.—Paragraph (2) of section 2001(c) is  
 6           amended by striking “\$10,000,000” and all that follows  
 7           and inserting “\$10,000,000. The amount of the increase  
 8           under the preceding sentence shall not exceed the sum of  
 9           the applicable credit amount under section 2010(c) and  
 10          \$359,200.”

11          (d) EFFECTIVE DATE.—The amendments made by  
 12          this section shall apply to estates of decedents dying, and  
 13          gifts made, after December 31, 2001.

14   **SEC. 302. CREDIT FOR STATE DEATH TAXES REPLACED**  
 15                           **WITH DEDUCTION FOR SUCH TAXES.**

16          (a) REPEAL OF CREDIT.—Section 2011 (relating to  
 17          credit for State death taxes) is hereby repealed.

18          (b) DEDUCTION FOR STATE DEATH TAXES.—Part  
 19          IV of subchapter A of chapter 11 is amended by adding  
 20          at the end the following new section:

21   **“SEC. 2058. STATE DEATH TAXES.**

22           “(a) ALLOWANCE OF DEDUCTION.—For purposes of  
 23          the tax imposed by section 2001, the value of the taxable  
 24          estate shall be determined by deducting from the value  
 25          of the gross estate the amount of any estate, inheritance,

1 legacy, or succession taxes actually paid to any State or  
2 the District of Columbia, in respect of any property in-  
3 cluded in the gross estate (not including any such taxes  
4 paid with respect to the estate of a person other than the  
5 decedent).

6 “(b) PERIOD OF LIMITATIONS.—The deduction al-  
7 lowed by this section shall include only such taxes as were  
8 actually paid and deduction therefor claimed within 4  
9 years after the filing of the return required by section  
10 6018, except that—

11 “(1) If a petition for redetermination of a defi-  
12 ciency has been filed with the Tax Court within the  
13 time prescribed in section 6213(a), then within such  
14 4-year period or before the expiration of 60 days  
15 after the decision of the Tax Court becomes final.

16 “(2) If, under section 6161 or 6166, an exten-  
17 sion of time has been granted for payment of the tax  
18 shown on the return, or of a deficiency, then within  
19 such 4-year period or before the date of the expira-  
20 tion of the period of the extension.

21 “(3) If a claim for refund or credit of an over-  
22 payment of tax imposed by this chapter has been  
23 filed within the time prescribed in section 6511, then  
24 within such 4-year period or before the expiration of  
25 60 days from the date of mailing by certified mail



1 or registered mail by the Secretary to the taxpayer  
 2 of a notice of the disallowance of any part of such  
 3 claim, or before the expiration of 60 days after a de-  
 4 cision by any court of competent jurisdiction be-  
 5 comes final with respect to a timely suit instituted  
 6 upon such claim, whichever is later.

7 Refund based on the deduction may (despite the provisions  
 8 of sections 6511 and 6512) be made if claim therefor is  
 9 filed within the period above provided. Any such refund  
 10 shall be made without interest.”

11 (c) CONFORMING AMENDMENTS.—

12 (1) Subsection (a) of section 2012 is amended  
 13 by striking “the credit for State death taxes pro-  
 14 vided by section 2011 and”.

15 (2) Subparagraph (A) of section 2013(c)(1) is  
 16 amended by striking “2011,”.

17 (3) Paragraph (2) of section 2014(b) is amend-  
 18 ed by striking “, 2011,”.

19 (4) Sections 2015 and 2016 are each amended  
 20 by striking “2011 or”.

21 (5) Subsection (d) of section 2053 is amended  
 22 to read as follows:

23 “(d) CERTAIN FOREIGN DEATH TAXES.—

24 “(1) IN GENERAL.—Notwithstanding the provi-  
 25 sions of subsection (c)(1)(B) of this section, for pur-

1 poses of the tax imposed by section 2001, the value  
2 of the taxable estate may be determined, if the ex-  
3 ecutor so elects before the expiration of the period  
4 of limitation for assessment provided in section  
5 6501, by deducting from the value of the gross es-  
6 tate the amount (as determined in accordance with  
7 regulations prescribed by the Secretary) of any es-  
8 tate, succession, legacy, or inheritance tax imposed  
9 by and actually paid to any foreign country, in re-  
10 spect of any property situated within such foreign  
11 country and included in the gross estate of a citizen  
12 or resident of the United States, upon a transfer by  
13 the decedent for public, charitable, or religious uses  
14 described in section 2055. The determination under  
15 this paragraph of the country within which property  
16 is situated shall be made in accordance with the  
17 rules applicable under subchapter B (sec. 2101 and  
18 following) in determining whether property is situ-  
19 ated within or without the United States. Any elec-  
20 tion under this paragraph shall be exercised in ac-  
21 cordance with regulations prescribed by the Sec-  
22 retary.

23 “(2) CONDITION FOR ALLOWANCE OF DEDUC-  
24 TION.—No deduction shall be allowed under para-  
25 graph (1) for a foreign death tax specified therein

1        unless the decrease in the tax imposed by section  
2        2001 which results from the deduction provided in  
3        paragraph (1) will inure solely for the benefit of the  
4        public, charitable, or religious transferees described  
5        in section 2055 or section 2106(a)(2). In any case  
6        where the tax imposed by section 2001 is equitably  
7        apportioned among all the transferees of property  
8        included in the gross estate, including those de-  
9        scribed in sections 2055 and 2106(a)(2) (taking into  
10       account any exemptions, credits, or deductions al-  
11       lowed by this chapter), in determining such decrease,  
12       there shall be disregarded any decrease in the Fed-  
13       eral estate tax which any transferees other than  
14       those described in sections 2055 and 2106(a)(2) are  
15       required to pay.

16            “(3) EFFECT ON CREDIT FOR FOREIGN DEATH  
17       TAXES OF DEDUCTION UNDER THIS SUBSECTION.—

18            “(A) ELECTION.—An election under this  
19       subsection shall be deemed a waiver of the right  
20       to claim a credit, against the Federal estate  
21       tax, under a death tax convention with any for-  
22       eign country for any tax or portion thereof in  
23       respect of which a deduction is taken under this  
24       subsection.

1 “(B) CROSS REFERENCE.—

“See section 2014(f) for the effect of a deduction taken under this paragraph on the credit for foreign death taxes.”

2 (6) Subparagraph (A) of section 2056A(b)(10)  
3 is amended—

4 (A) by striking “2011,” and

5 (B) by inserting “2058,” after “2056,”.

6 (7)(A) Subsection (a) of section 2102 is amend-  
7 ed to read as follows:

8 “(a) IN GENERAL.—The tax imposed by section 2101  
9 shall be credited with the amounts determined in accord-  
10 ance with sections 2012 and 2013 (relating to gift tax and  
11 tax on prior transfers).”

12 (B) Section 2102 is amended by striking sub-  
13 section (b) and by redesignating subsection (c) as  
14 subsection (b).

15 (C) Section 2102(b)(5) (as redesignated by sub-  
16 paragraph (B)) and section 2107(c)(3) are each  
17 amended by striking “2011 to 2013, inclusive,” and  
18 inserting “2012 and 2013”.

19 (8) Subsection (a) of section 2106 is amended  
20 by adding at the end the following new paragraph:

21 “(4) STATE DEATH TAXES.—The amount which  
22 bears the same ratio to the State death taxes as the  
23 value of the property, as determined for purposes of  
24 this chapter, upon which State death taxes were paid

1       and which is included in the gross estate under sec-  
2       tion 2103 bears to the value of the total gross estate  
3       under section 2103. For purposes of this paragraph,  
4       the term ‘State death taxes’ means the taxes de-  
5       scribed in section 2011(a).”

6               (9) Section 2201 is amended—

7                       (A) by striking “as defined in section  
8               2011(d)”, and

9                       (B) by adding at the end the following new  
10              flush sentence:

11      “For purposes of this section, the additional estate tax  
12      is the difference between the tax imposed by section 2001  
13      or 2101 and the amount equal to 125 percent of the max-  
14      imum credit provided by section 2011(b), as in effect be-  
15      fore its repeal by the Tax Reduction Act of 2001.”

16               (10) Paragraph (2) of section 6511(i) is amend-  
17      ed by striking “2011(c), 2014(b),” and inserting  
18      “2014(b)”.

19               (11) Subsection (c) of section 6612 is amended  
20      by striking “section 2011(c) (relating to refunds due  
21      to credit for State taxes),”.

22               (12) The table of sections for part II of sub-  
23      chapter A of chapter 11 is amended by striking the  
24      item relating to section 2011.

1           (13) The table of sections for part IV of sub-  
 2           chapter A of chapter 11 is amended by adding at  
 3           the end the following new item:

          “Sec. 2058. State death taxes.”

4           (d) EFFECTIVE DATE.—The amendments made by  
 5           this section shall apply to estates of decedents dying after  
 6           December 31, 2001.

7   **SEC. 303. VALUATION RULES FOR CERTAIN TRANSFERS OF**  
 8                           **NONBUSINESS ASSETS; LIMITATION ON MI-**  
 9                           **NORITY DISCOUNTS.**

10          (a) IN GENERAL.—Section 2031 (relating to defini-  
 11          tion of gross estate) is amended by redesignating sub-  
 12          section (d) as subsection (f) and by inserting after sub-  
 13          section (c) the following new subsections:

14          “(d) VALUATION RULES FOR CERTAIN TRANSFERS  
 15          OF NONBUSINESS ASSETS.—For purposes of this chapter  
 16          and chapter 12—

17                 “(1) IN GENERAL.—In the case of the transfer  
 18                 of any interest in an entity other than an interest  
 19                 which is actively traded (within the meaning of sec-  
 20                 tion 1092)—

21                         “(A) the value of any nonbusiness assets  
 22                         held by the entity shall be determined as if the  
 23                         transferor had transferred such assets directly  
 24                         to the transferee (and no valuation discount

1 shall be allowed with respect to such nonbusi-  
2 ness assets), and

3 “(B) the nonbusiness assets shall not be  
4 taken into account in determining the value of  
5 the interest in the entity.

6 “(2) NONBUSINESS ASSETS.—For purposes of  
7 this subsection—

8 “(A) IN GENERAL.—The term ‘nonbusi-  
9 ness asset’ means any asset which is not used  
10 in the active conduct of 1 or more trades or  
11 businesses.

12 “(B) EXCEPTION FOR CERTAIN PASSIVE  
13 ASSETS.—Except as provided in subparagraph  
14 (C), a passive asset shall not be treated for pur-  
15 poses of subparagraph (A) as used in the active  
16 conduct of a trade or business unless—

17 “(i) the asset is property described in  
18 paragraph (1) or (4) of section 1221(a) or  
19 is a hedge with respect to such property,  
20 or

21 “(ii) the asset is real property used in  
22 the active conduct of 1 or more real prop-  
23 erty trades or businesses (within the mean-  
24 ing of section 469(c)(7)(C)) in which the  
25 transferor materially participates and with

1           respect to which the transferor meets the  
2           requirements of section 469(c)(7)(B)(ii).

3           For purposes of clause (ii), material participa-  
4           tion shall be determined under the rules of sec-  
5           tion 469(h), except that section 469(h)(3) shall  
6           be applied without regard to the limitation to  
7           farming activity.

8           “(C) EXCEPTION FOR WORKING CAP-  
9           ITAL.—Any asset (including a passive asset)  
10          which is held as a part of the reasonably re-  
11          quired working capital needs of a trade or busi-  
12          ness shall be treated as used in the active con-  
13          duct of a trade or business.

14          “(3) PASSIVE ASSET.—For purposes of this  
15          subsection, the term ‘passive asset’ means any—

16               “(A) cash or cash equivalents,

17               “(B) except to the extent provided by the  
18               Secretary, stock in a corporation or any other  
19               equity, profits, or capital interest in any entity,

20               “(C) evidence of indebtedness, option, for-  
21               ward or futures contract, notional principal con-  
22               tract, or derivative,

23               “(D) asset described in clause (iii), (iv), or  
24               (v) of section 351(e)(1)(B),

25               “(E) annuity,



1           “(F) real property used in 1 or more real  
2           property trades or businesses (as defined in sec-  
3           tion 469(c)(7)(C)),

4           “(G) asset (other than a patent, trade-  
5           mark, or copyright) which produces royalty in-  
6           come,

7           “(H) commodity,

8           “(I) collectible (within the meaning of sec-  
9           tion 401(m)), or

10          “(J) any other asset specified in regula-  
11          tions prescribed by the Secretary.

12          “(4) LOOK-THRU RULES.—

13               “(A) IN GENERAL.—If a nonbusiness asset  
14               of an entity consists of a 10-percent interest in  
15               any other entity, this subsection shall be ap-  
16               plied by disregarding the 10-percent interest  
17               and by treating the entity as holding directly its  
18               ratable share of the assets of the other entity.  
19               This subparagraph shall be applied successively  
20               to any 10-percent interest of such other entity  
21               in any other entity.

22               “(B) 10-PERCENT INTEREST.—The term  
23               ‘10-percent interest’ means—

24                       “(i) in the case of an interest in a cor-  
25                       poration, ownership of at least 10 percent

1 (by vote or value) of the stock in such cor-  
2 poration,

3 “(ii) in the case of an interest in a  
4 partnership, ownership of at least 10 per-  
5 cent of the capital or profits interest in the  
6 partnership, and

7 “(iii) in any other case, ownership of  
8 at least 10 percent of the beneficial inter-  
9 ests in the entity.

10 “(5) COORDINATION WITH SUBSECTION (b).—

11 Subsection (b) shall apply after the application of  
12 this subsection.

13 “(e) LIMITATION ON MINORITY DISCOUNTS.—For  
14 purposes of this chapter and chapter 12, in the case of  
15 the transfer of any interest in an entity other than an in-  
16 terest which is actively traded (within the meaning of sec-  
17 tion 1092), no discount shall be allowed by reason of the  
18 fact that the transferee does not have control of such enti-  
19 ty if the transferee and members of the family (as defined  
20 in section 2032A(e)(2)) of the transferee have control of  
21 such entity.”

22 (b) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to transfers after the date of the  
24 enactment of this Act.

1 **SEC. 304. EXPANSION OF ESTATE TAX RULE FOR CON-**  
2 **SERVATION EASEMENTS.**

3 (a) **REPEAL OF LOCATION REQUIREMENT.**—Sub-  
4 paragraph (A) of section 2031(c)(8) (defining land subject  
5 to a conservation easement) is amended by striking clause  
6 (i) and redesignating clauses (ii) and (iii) as clauses (i)  
7 and (ii), respectively.

8 (b) **CLARIFICATION OF DATE FOR DETERMINING**  
9 **VALUE OF LAND AND EASEMENT.**—Section 2031(c)(2)  
10 (defining applicable percentage) is amended by adding at  
11 the end the following new sentence: “The values taken into  
12 account under the preceding sentence shall be such values  
13 as of the date of the contribution referred to in paragraph  
14 (8)(B).”.

15 (c) **EFFECTIVE DATE.**—The amendments made by  
16 this section shall apply to estates of decedents dying after  
17 December 31, 2000.

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